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Expert View: Ankur Jhaveri of JM Financial on trade war impact, India vs China, strategy for Indian stock market & more

Expert view: Ankur Jhaveri, MD & CEO, Institutional Equities at JM Financial Institutional Securities, believes a trade war is a major risk that could impact the Indian economy, but domestic consumption could restrict the overall impact.

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Deep Dive with

*Expert view: Ankur Jhaveri, MD & CEO, Institutional Equities at JM Financial Institutional Securities Ltd., believes a major trade war could impact the Indian economy, but domestic consumption could restrict its overall impact.**(JM Financial Institutional Securities Ltd.)***

Expert view: Ankur Jhaveri, MD & CEO, Institutional Equities at **JM Financial Institutional Securities Ltd.**, believes a major trade war could impact the Indian economy, but domestic consumption could restrict the overall impact In an interview with Mint, Jhaveri shared his views on the stock market strategy, sectors he is positive about and key triggers for the market. Here are edited excerpts of the interview:

What does a deeper trade war mean for the Indian economy and markets?

When you restrict the largest global suppliers from accessing US markets, the world (except the US) should be prepared for a deflationary cycle, which will benefit consumers but negatively impact domestic players.

The second and third-order impacts would be difficult to fathom at this stage.

We see a risk to growth through the trade route, as exports have already been weak (0.1 per cent YoY in FY25).

A deterioration in India's trade balance would also drag GDP in FY26 (less than 6.5 per cent growth). Moreover, India is highly unlikely to increase its exports to the US.

On the other hand, domestic consumption could see some meaningful uptick in India, thus restricting overall impact and proving to be a great hedge for investors in these uncertain global markets.

Do you think China's pain is India's gain? Can we see the 'Sell China, Buy India' narrative to gain traction?

To some extent, yes, with the 'Make in India' and PLI scheme already in place, India could leverage its dependable position and relatively better corporate governance at the country level versus China to build on its manufacturing dream/idea.

However, India still lacks scale and ease of doing business compared to China, which would act as an impediment. I believe India would be an option when the existing trend of diversifying supply chains away from China gains further pace.

Are we likely to see a longer period of moderate gains?

In the long run, market gains are a function of earnings. I still see some room for cutting earnings estimates that align with the consensus.

That should lead to higher single-digit earnings growth in FY25, which was reflected in the nearly 4.5 per cent returns in the Nifty in FY25.

For this year, considering the heightened uncertainty around tariffs and the likely deflationary pressures due to dumping by Asian countries in the upcoming years, markets should be prepared for increased competition-led moderate earnings.

However, Indian markets could gain from the flux of sudden liquidity, especially from foreign investors, given their positioning as a hedge in this trade war with relatively favourable macroeconomics.

Is it time to trim exposure to equities? What should be our investment strategy?

In a risk-off environment, equities trading at rich valuations should be avoided. However, within the equity portfolio, we would position more towards large caps with valuation comfort versus mid and small caps.

Allocation to SMIDS (small and mid-caps) would be tactically towards companies with earnings visibility.

Moreover, considering the current geopolitical landscape, I would prefer companies catering to domestic demand and being a segment leader.

What is driving gold prices? Is it a better asset class for retail investors in the long term?

Central banks have been the biggest buyers of gold in the last three years as they diversified away from the US dollar.

As per the World Gold Council, 2024 is the third consecutive year in which demand from central banks surpassed 1,000 tonnes, far exceeding the 473 tonnes annual average between 2010 and 2021.

Global uncertainty remains elevated and is expected to remain so at least until the tariff issue is resolved, so demand for the safe-haven asset (gold) is expected to remain strong.

However, after a 53 per cent nonstop rally since November 2023, we may see a pause. In the long term, depending on an investor's profile and goals, one should have a fine balance across asset classes.

Apart from Trump's tariffs, what are the key triggers for the market?

The actual shape and size of Trump's tariffs are not yet clear, so their second—and third-order impact will be difficult to gauge.

Apart from tariffs, we believe that earnings growth would be key to monitoring. It would be dependent on domestic consumption patterns and pick up pace.

What sectors can generate alpha in the next one to two years?

If you can digest the turbulence in the next one to two years, banks will provide the valuation comfort currently, but the impact of rate cuts on the NIMS (net interest margins) should be reflected in this rate-cut cycle.

Secondly, despite a conservative growth in capex allocation of ₹11.2 lakh crore (10 per cent over FY25RE), I believe ₹11.2 lakh crore is a substantial amount. Considering that the capex intensity will likely be strong in FY26, I believe players in this space should continue to benefit.

It would continue to play the local consumption story across discretionary names, especially at the higher end of the curve.

How do you see the domestic growth-inflation dynamics evolving this year?

After the election-induced sluggishness dragged the economy in FY25, economic activity bottomed out in Q2 FY25 (5.6 per cent growth). I see a gradual uptick from here on.

However, it would be unrealistic to expect growth in the range of 6.2 - 6.3 per cent in FY25, unlike the government's 6.5 per cent expectation.

CPI inflation moderated to 3.3 per cent in March 2025 on the back of moderation in the food category.

IMD's above-normal monsoon expectation bodes well for the supply side. The sharp drop in the RBI's inflation projection in Q1 (-90bps to 3.6 per cent) is reflected in the shorter end of the yield curve.

Moreover, the RBI expects inflation to be within the 4 per cent target in FY25, which aligns with our house expectation.

What are your expectations about the US and India rate cuts?

In the base case, the US negotiates a trade deal with its trading partners, which would ideally lower the duty incidence compared to the reciprocal tariffs imposed currently.

Tariff implementation spreads the inflationary impact, at least in H1CY25 (the first half of the calendar year 2025).

Moreover, the US Fed Chair Jerome Powell expects the impact to be 'transitory' on the inflation print. I am not in the recession camp.

However, a slowdown is a given, considering elevated inflation would negatively impact the economy's consumption spending. Hence, we expect two, max three, cuts by the US Federal Reserve.

Since the RBI's guard change, domestic monetary policy has clearly shifted toward addressing growth concerns rather than price stability.

Headline inflation has moderated below the 4 per cent mark (3.3 per cent in March 2025), providing further comfort to the MPC's focus on meeting the economy's potential growth by front-loading rate cuts.

Our terminal rate expectation as a house is at 5.5 per cent to 5.75 per cent in this rate cut cycle.